

25X1A

ORIG: [REDACTED]  
 UNIT: CD/OSA  
 EXT: 6986  
 DATE: 15 JUL 64

1531

## CLASSIFIED MESSAGE

SECRET

ROUTING		
	CD/OSA	9
2	AD/OSA	10
3	D/TECH	11
4	MD	12
5	RB	13
6		14
7		15
8		16

PRIORITY		PRIORITY	
PREFERENCE	DEFERRED	PRIORITY	
X	ROUTINE	OPERATIONAL IMMEDIATE	

25X1A

TO: [REDACTED]

FROM: DIRECTOR

CONF:

INFO:

OSA 1-15  
*sub*

25X1A

25X1A

25X1A

16571

TO: [REDACTED]

INFO: [REDACTED]

CITE: [REDACTED]

0599

IDEALIST

ATTN: [REDACTED]

1. YOUR PRICE ANALYSIS SUBMITTED ON 24 JUNE 64 FOR 6 HR 73 B CONFIGURATIONS BEARS THE FOLLOWING:

"DOES NOT INCLUDE COMPUTER TIME OF LENS GLASS MELT ANALYSIS"

THIS EXCLUSION WAS NOT NOTED IN PRIOR QUOTATIONS.

2. BEFORE CONTRACT NO. LG-5020 CAN BE DEFINITIZED ON A FIXED PRICE BASIS AT [REDACTED] PER CAMERA, IT IS NECESSARY TO KNOW IF

THIS COST WAS INCLUDED IN YOUR P.O. TO [REDACTED] AS FINALLY NEGOTIATED ON 24 JUNE 64. IF NOT, WHAT IS THE COST AND HOW DO YOU PROPOSE TO HANDLE CONTRACT COVERAGE?

*Lens retooling time  
+ computer time*

END OF MESSAGE

*charge in cost of lens  
due to computer time  
+ retooling by 160 per  
lens mfg. Camera*

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CH/CD/OSA

COORDINATING OFFICERS

SECRET

RELEASING OFFICER

GROUP 1  
Excluded from automatic  
downgrading and  
declassification

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AUTHENTICATING OFFICER

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B-2

19 June 1964

Subject: Advisory Report on Review of Proposal No. 1699  
Hycor Mfg. Company  
Monrovia, California

To: Contracting Office

Ref: Audit Liaison Request No. 1770, dated 4 May 1964

1. In compliance with the referenced request, a review was performed of cost data contained in the revised proposal submitted and received on 17 June 1964. The review consisted of an examination of supporting documentation to the revised proposal, and incurred hours and costs on the preceding contract GH-5710. (The final costs and price were negotiated on 25 May, 1964 for contract GH-5710.) The preceding contract was for three HR 73-B Configuration plus spare, and this proposal is for six HR 73-B Configuration. An attachment to this proposal indicates additional material costs for a different type lens and related housing and change in containers in the net amount of \$16,660. There is also an additional material cost for a new type carriage in the amount of \$7,010. The auditor was advised that these are the only changes from the prior three units.

25X1A

2. The results of the review are summarized below.  
 Details by elements of cost are presented in Schedule 1, and the auditors comments and recommendations are contained in the following paragraphs.

	<u>Proposal</u>	<u>Question</u>	<u>Cost</u>	<u>Auditor</u>
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25X1A	Total costs Profit <input type="text"/> Price			
25X1A	Total costs Profit <input type="text"/> Price			
25X1A	Shop - Shop and assembly labor Inspection			
25X1A	Engineering - Project engineer System test Total			

Hycan  
#1699

b. On the prior job for 3 units, the contractor incurred a total of 9,400 hours of which approximately 7,400 were engineering and approximately 2,000 were shop-type hours. The engineering hours on this job

Note → should be lower, since certain of the preliminary work on the prior job is applicable also to this effect. However, it appears that the shop-type hours proposed for this job are overstated by approximately 2,000 hours. In addition, the contractor has made no provision for possible learning.

c. The auditor has reduced the shop-type direct labor hours proposed from 16,170 to 14,670, or by 1,500 hours.

#### 4. Direct Labor Rates.

a. Direct labor rates proposed are as follows:

Shop -

Shop and assembly labor  
Inspection

--

Engineering -

Project engineer (specific individual)  
System test

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b. A review of the actual rates for Special Projects Dept. 31 by categories as of 15 June 1964 indicates the following:

25X1A

Shop -

Shop and assembly labor (average)

Inspection (average)


Engineering -

Project Engineer (specific individual)

System Test

The auditor has used these latter rates for the computations shown in the report.

### 5. Overhead Rate.

25X1A

a. The contractor has increased its proposed rate from [ ] shown in the initial proposal dated 4 April 1964, to [ ] of direct labor costs for this revised proposal. (The auditor was informed that this increase was based primarily upon the 3% per cent rate for the month of May.) The rates currently experienced in Special Projects Dept. 31 for this fiscal period starting 1 February 1964 are as follows:

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#1699

Month      Year to Date

25X1A

February  
March  
April  
May

--

b. The auditor made a selective review of May overhead expenses to determine the cause of the unusual increase in rate. These items are as follows:

(1) The month of May included a holiday, which has the double effect of increasing overhead expenses and decreasing the labor dollar base.

(2) Purchases of office supplies for February, March, and April averaged \$350 per month; but in May the purchases totaled \$2,200.

(3) The account, Outside Services, showed a charge for architects' fees related to a "one story technical building, Bldg. 'L'" in the amount of \$1,370.

(4) Charges originating in two engineering departments in the main plant were made to Special Projects Dept. 31 overhead in May in the total amount of \$2,327. Copies of these authority

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25X1A

Note →

for Expenditure, Nos. 9500-90 and 9501-44 are attached for your review.

c. The first three items in paragraph b above appear to be nonrecurring types of items (except holidays, which will occur in July, September, November, and December 1964). Item b(4) appears to be questionable as to its applicability to the Special Projects Dept. 31, in view of the security aspects and the methods currently followed by Special Products Dept. 31 in purchasing parts and raw materials.

d. Based upon the above, it is the opinion of the auditor that the overhead rate for this proposal should not exceed [ ] % direct labor costs.

25X1A

#### 6. Material Costs.

a. The total amount of material costs proposed for six units, \$233,748, appears to be excessive when related to the final total material costs incurred (and negotiated in the final price) on Contract GH-5710 for three units, (spares not included). Comparative data is shown below.

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4/19/64

<u>Prior Job</u>	<u>This Proposal</u>
<u>3 Units</u>	<u>6 Units</u>
<u>6 Units</u>	

Final total material costs

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Purchases from sub-contractors

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Purchases of raw materials,  
misc. small parts, etc.Total costs before  
changes and new itemsNet variance due to change  
in lens, etc.

New item - soft carriage

Overstatement of costs prop

b. As an additional test of the accuracy of material costs proposed, Schedule 2 and explanatory notes presents a comparison of material costs by categories between those recorded on the prior job and those contained in a priced bill of materials applicable to this proposal.

c. The contractor has not yet concurred with the amount of overstatement shown above, [redacted]. This raises an interesting point of discussion.

25X1

If the costs proposed, before changes and new items, of [redacted] (76a above) are correct, (which is not substantiated by the price bill of materials) then some costs applicable to the prior job, an incentive-type contract, were recorded against other work of the contractor. If the costs recorded and negotiated on the prior contract are correct, then the costs proposed for this contract (SFP) are overstated.

25X1A

7. Material Handling Rate.

a. The contractor proposes a rate of [redacted] of material costs for this item. The current trend is shown below.

25X1A

February  
March  
April  
May

	<u>Month</u>	<u>Year to Date</u>
	[redacted]	[redacted]

25X1A

b. In view of the above, the auditor recommends the use of an [redacted] rate for this proposal.

c. It should be noted that a similar decreasing trend was experienced in the prior fiscal year.

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8. Overtime Premium. The amount proposed for this item, \$1,500, represents an estimate.

9. G&A Rate.

25X1A

a. The contractor proposed a rate of  $\frac{1}{2}$  in the initial proposal for this job and decreased it to  $\frac{1}{3}$  for the revised proposal. The rates currently experienced for this fiscal year are shown as follows:

25X1A

	<u>Month</u>	<u>Year to Date</u>
February		
March		
April		
May		

25X1A

b. The auditor recommends the use of a  $\frac{1}{3}$  G&A rate for this proposal.

25X1A

10. Profit. The contractor proposes a profit rate of  $\frac{1}{2}$  for this work. In paragraph 2 above, the auditor presents an alternate computation using a profit rate of  $\frac{1}{3}$  applied to adjusted costs.

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25X1A

(9)

11. Discussion With Authorized Contractor Personnel.

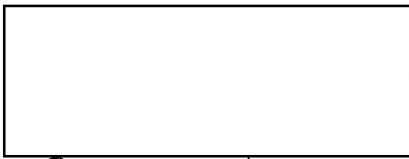
Because of the short time between receipt of the revised proposal and the date set for negotiation, the auditor's recommendations presented in Schedule 1 to this report were not discussed in detail with contractor personnel. The direct labor rates used by the auditor were coordinated with [redacted]

25X1A

25X1A

[redacted] and he was advised of the apparent overstatement of proposed shop direct labor hours; the amount of material costs questioned; and the overhead, material handling, and G&A rates used by the auditor.

25X1A



PROJECT AUDITOR

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25X1A

25X1A

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Next 1 Page(s) In Document Exempt

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SCHEDULE 2

(Page 2 of 2)

EXPLANATORY NOTES

Note 1 - For purposes of this presentation, the auditor has reclassified the costs of mirrors from No. 05 to No. 14 on the prior job, since the costs of mirrors on the current proposal are in No. 14.

Note 2-a. The contractor's representative stated that the priced bill of materials did not include the costs of a few items of raw material which have a low dollar value. This would account for the difference of approximately \$5,000.

b. This priced bill of materials contains the increased costs applicable to the change in lens, etc., and the new item - soft carriage.

25X1A

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